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INDUSTRIAL INSURANCE

XII

SURVEY AND OUTLOOK

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There are already, as we have seen in the preceding chapters, various systems of industrial insurance in the United States which witness to the universal sense of need of such protection even among those workers who have least developed habits of thrift. These imperfect and unrelated schemes are yet to be developed, co-ordinated, regulated, and combined so as to form a consistent, comprehensive, and adequate system. The hope of progress lies in these germinal beginnings, and the problem immediately before the nation is one of synthesis. Evolution does not make great leaps, for even the "sports" which figure in the "mutation theory" of DeVries are closely akin to the parent stock.

Is universal insurance an economic possibility? A complete answer to this question would require extended discussion. A few things may be suggested. The profit fund could carry a very large share of the burden, as shown by the fact that employers are marvelously prosperous, and by the fact that even now, though in a very uncertain way, they set apart a vast sum for helping workmen in times of disability in the form of contributions to sickness funds, hospitals, physicians, and gifts to families in distress, not to speak of taxes for public relief and enormous costs for casualty insurance and litigation, which is now waste. The wages fund could bear a much heavier drain for insurance if we can judge from the immense sums spent by workmen for objects which are destructive to health and morals. It is true that the unskilled workmen have no margin for adequate insurance, and those who cannot supply even the immediate necessities of existence can hardly be expected to provide for the future without help from the profit fund and from consumers.

Systems and schemes of industrial insurance.—(1) The workingmen have themselves created organizations for insurance, and thereby express a universal sense of need of this protection: local mutual benefit societies, with or without aid from employers, national brotherhoods or fraternal, and trade-unions with local branches. (2) Employers have promoted the movement by various methods: local societies of employees, insurance departments of great firms or corporations, contracts between firms and casualty companies, pension schemes of employing corporations. (3) Private insurance companies which sell sickness and accident insurance to workmen, "industrial insurance companies" collecting small premiums weekly or monthly, and furnishing chiefly burial benefits to the low-paid families and regular life insurance to those who have higher wages. (4) Organizations of municipal, state, and federal employees for pension funds, as those of teachers, firemen, policemen; the national and state military pensions; homes for invalid veterans. Here also may be counted as auxiliary and supplementary government activities, poor relief, liability laws, protective factory laws and inspection, and state supervision of fraternal societies and insurance corporations. Every one of these agencies and organizations represents some beginning of a movement toward obligatory insurance. The cities have already recognized their duty to care for the policemen, firemen, and teachers; and it will be difficult to answer the question of other employees of cities, many of them far more in need of protection, why they should not be included. The nation and the states have already declared it to be our duty to shelter the aged and wounded soldier, why should the victims of the "army of labor" be neglected? They also have served their country in occupations even more dangerous and destructive than war, and quite as useful. Public poor relief has already acknowledged the duty of the community to support its members who are incapable of labor; but experience has taught that this method tends to humiliate and degrade the recipients and it is manifestly better from every point of view to prevent the need of appeal to poor relief by creating an insurance fund, so far as this is possible.

The employers' liability laws recognize in a restricted field the principle that the responsible managers of business should indemnify employees for injuries due to the occupation, that is, so far as the employer is responsible for the injury. Perhaps 10 to 15 per cent. of the cases of injuries in occupations are theoretically covered by this legal device. The trade-unions are seeking by all means in their power, and supported by the humane feelings of the people, to make this law more and more drastic; and at least some of the courts, with their elective judges dependent on the votes of the workmen, are more and more inclined to make this law practically not only compensatory but even punitive in its working. The result in increasing numbers of cases is wrong to the employer. The juries, wherever the case is decided by them, are inclined to give the employee the benefit of the law to the full extent. On the other hand, the employers are compelled to pay heavy premiums to protect themselves against an artificial risk created by the law itself, and these premiums are already a charge on the cost of production and levied in the prices of commodities upon the consumer. The intervention of a casualty company under these conditions not only widens the breach between employers and employees, but it tends to make the insuring companies, who are doing a legitimate business, exceedingly hated by the employees and their friends. This conflict tends to lower the efficiency of labor, the productivity of capital, and to crowd the courts with damage suits which obstruct ordinary business of courts. The time seems ripe for a change of the law. Logically factory laws and protective legislation generally lead to industrial insurance. If it is proper for the state to require employers to prevent preventable accidents then it is a rational function of government to secure indemnity for loss of earning power caused by occupations. Up to this time it cannot be said that American states have any definite "social policy." Legislation has been modified here and there by the modern conception that the state owes certain duties toward those who are in an economic position of dependence; but this progress has been gained in spite of the ruling social philosophy of individualism. Outside of the poor

law and the employers' liability law, with certain factory regulations, the law has offered to the workingman chiefly empty formulas about liberty of contract which had no economic content to fill their phrases with real meaning. Why have the states been so slow to enter the modern path of a genuine "social policy," in which the welfare of those in a semi-dependent economic position has been made the distinct object of public care? The employers' liability laws, the poor relief laws, and the public schools are indications of a growing belief in the right direction, but the logic of such organizations is not clearly recognized and appreciated. The reasons have already been discussed. Free land, to be had for asking and taking, has until recently offered to any man who did not wish to be in a subordinate position the opportunity of becoming a landlord and a capitalist, taking the risks of life on his own account; and hence it was thought America had forever escaped the formation of an "industrial group" whose members were to remain, and their children after them, in the situation of persons living day by day on daily wages. Individualism ruled our ethics, economics, theology, legislation, courts, and politics. The strife between trade-unions, fraternal, and profit-seeking insurance corporations has, perhaps, prolonged the difficulty of forming a united public policy. One great difficulty in the way of obligatory and universal insurance lies in the fact that our central government has so limited constitutional powers in this field. The manufacturers of Massachusetts opposed the compensation bill proposed in their legislature on the ground that it would handicap them in competing with manufacturers of other states. It is a long and weary way to unified and harmonious legislation to secure it by conference and agreement; the commissions appointed to promote uniform legislation have only advisory powers. There is no prospect that a constitutional amendment permitting Congress to enact a national insurance law could be secured. Congress has already exercised its constitutional powers in the field of interstate commerce by enacting rather drastic liability law for railroads, with results still in question, and certainly not satisfactory to any party involved. Dr. Zacher (Heft XVI of his *Arbeiterversicherung*

im Auslande, p. 6) has said of European countries what is applicable with full force to the United States: A survey of the tables of statistics in the *Guide to Workingmen's Insurance in the German Empire*, which shows the plans and results of industrial insurance in European countries, shows one immediately that those lands have approached most nearly the ideal of care for all working people which have committed themselves to compulsory insurance. With compulsory insurance laws the end is reached in a comparatively short time; while even with state subsidies voluntary plans have failed to help a part of the population imperfectly and those who most need the protection of insurance not at all. Our problem is essentially the legal question: how can we introduce obligatory insurance in this country without conflict with our written constitutions and with the traditions of the courts?

The problems of organization and administration might be difficult, but they would not be insoluble if the legal way could be opened. As all acknowledge, American institutions have shown a wonderful power to adapt themselves to new social demands and the inventive talent of the people goes into administration. Life in contact with nature made the pioneers ready to confront new situations without much regard for unfit precedents, and their spirit is not dead. As for courts, we have in the county courts, whose judges are chosen directly by the people, a popular, fair, trusted, and capable agency for deciding many of the questions which would arise in the interpretation and application of a new law. Their records would have public faith and their quarters would be convenient for the archives of agreements and statistics. Our experience with the new juvenile courts proves that our judiciary can easily rise above the routine of meaningless procedure when occasion requires and their hands are free. From early times various public duties have been assigned to local courts, as supervision of prisons and jails, poorhouses, and semi-philanthropic functions; and it would not be an absolute novelty if they were given some supervision over the judicial management of insurance business requiring regularity and legal instruction. A rational insurance law would clear the dockets

of a vast amount of hopelessly confusing damage suits and make room for the far more satisfactory and easy business of mediating without process in applying the principles of insurance. This would be a noble social function for judges.

Each state has already its insurance department which has supervisory and even administrative powers within state limits. The commissioners are supposed to be insurance experts, or to employ experts, and they have annual conferences and constant correspondence in relation to uniform methods of inspection and control. Every insurance company must now render reports to this insurance department, and it would be merely an extension of such departments if they were to be intrusted with collecting statistics about accidents, industrial diseases, fraternities, decisions of liability suits, and all schemes of compulsory industrial insurance. This department could also act, if necessary, as the depository of reserve funds, as it already does in case of certain insurance corporations whose principal office is outside the state.

The subject of industrial insurance has long been discussed as a burning question among charity workers. Visitors among the poor, residents of social settlements, officers of relief societies could not fail to discover that thousands of families fall a burden upon charity, a burden too heavy for their funds, in consequence of the disability or death of workingmen on whom the families were dependent. Even if the charitable societies could raise enough money to meet the need the distribution of charity would be humiliating and degrading on a vast scale. It is also the intelligent charity visitor who discovers the frightful cost and the entire inadequacy of existing methods of trying to provide benefits through the agencies described above. Those who have organized the movement to combat tuberculosis have come upon the discovery that industrial insurance is the only method thus far devised for providing a fund for the care of the afflicted and for establishing preventive means on a large foundation (thus Dr. A. C. Klebs, medical director of the Chicago Anti-Tuberculosis Society, article in *American Journal of Sociology*, September, 1906). The National Conference of Charities and

Correction, which counts among its members representatives of all forms of philanthropic enterprises, in the year 1901 appointed a committee to study and report on the methods of industrial insurance in this country and abroad, with a view to educating public sentiment on the subject. This committee made reports which may be found in the proceedings for 1905 and 1906, and the subject was so deeply interesting to the members that the same committee was kept in existence and requested to follow the subject in future reports. Various charity organizations have made local investigations into the extent and causes of poverty due to accidents and diseases of industries, and in publishing the results in the magazine *Charities and Commons* have urged the necessity of protection through some form of insurance.

We may describe the actual situation in a typical city with large industrial population in order to set forth the facts in more concrete form.²

Michigan City is a rapidly growing manufacturing town of Indiana situated on the Indiana port of Lake Michigan and near to Chicago. The population is composed chiefly of workingmen and their families, German, Scandinavian, Slavic, and Italian. The Barker Car Works employ 2,500 men; the Ford and Johnson Chair Factories employ 1,200 men and boys. There are many women wage-earners in small factories. There are about 500 railroad employees. Mr. Bill found four classes of beneficiary associations: fraternal life insurance orders, fraternal benefit orders not furnishing life insurance, parish mutual benefit societies, and workingmen's mutual benefit societies. He also found casualty companies and burial benefit companies ("industrial insurance"). (1) Fraternal societies or orders furnishing life insurance are governed by state laws. In this town 20 orders are represented by 26 lodges. The membership of each lodge varies from 15 to 300; the majority having 75 to 150. Inquiry was made to discover the ratio of wage-earners in the membership. In one lodge of the Maccabees, with a membership of 300, 60 were business men, 12 farmers, 9 professional,

² The facts are furnished from a yet unpublished paper of Mr. Ingram E. Bill, Jr.

219 skilled workmen with good wages. In a lodge of the North American Union having 297 members, over 50 were laborers, earning not more than \$2 a day. A lodge of the Modern Woodmen, with a membership of 210, had 193 wage-earners, 80 per cent. of whom receive \$1.50 to \$2 per day. In a lodge of the Royal Arcanum, generally regarded as a strong and safe order, 75 per cent. were workmen, and 20 per cent. of all did not earn more than \$2 per day. In the lodges composed of women nearly all lived upon wages. (2) The fraternal orders which do not furnish life insurance, but only sickness, accident, and funeral benefits, are not so numerous or strong as the others just described. In the Odd Fellows lodges, about 75 per cent. are wage-earners. In sickness they pay \$4 a week benefits and \$1.50 a day for nurse hire; the funeral benefit is \$100. The Order of Eagles is composed chiefly of artisans and professional men; few are low-paid laborers. The dues are 50 cents a month; the sick benefits \$5 a week, for 13 weeks; and the funeral benefit is \$100. The Order of Mutual Protection, the North American Union, and the Foresters provide a permanent disability benefit which is 10 per cent. annually of the amount of the death benefit. (3) In one factory with 600 to 700 employees there is a mutual benefit society with about 350 members. The members must be over 14 years of age and under 45, in good health and of moral character. The dues are 90 cents a quarter; in case of disability due to accident or sickness a weekly benefit of \$5 is paid for 16 weeks. The employers are said to contribute to this society, but no definite amount is mentioned. Wages are usually under \$2 a day. (4) In the Catholic and Lutheran parishes aid societies exist. The St. John's German Lutheran society was founded in 1855; has 260 members, mostly workingmen. The dues are \$6 a year; the benefits during disability from accident or sickness are \$8 a week; death benefit, \$800.

The immigrants more recently arrived, as the Italians, Syrians, and Turks, have not yet established mutual benefit societies. Among these the industrial companies send energetic agents who collect large sums in the aggregate for high premiums; but the burial benefits are meager.

GENERAL CONCLUSIONS IN RELATION TO EACH METHOD OF
INSURANCE

Sickness insurance.—The present organs of sickness insurance are: local mutual benefit societies, lodges of the trade-unions and fraternal societies, relief departments of railroads, and casualty companies. Naturally this form of insurance is most widely developed among the workmen of cities. Everywhere the organization is voluntary, unless we may speak of constraint to enter the relief departments and other similar arrangements as a condition of employment as compulsion. The local societies are seldom united in groups, and each bears its burden alone. Central direction and supervision by the state are unknown. The lodges of the fraternal societies and of some of the trade-unions work under control from a central legislature. The administration of the relief departments is in the hands of committees representing both employers and employees. Those who simulate sickness are discovered by medical examination, or by visits of committees. None of these agencies rests on a strictly scientific basis approved by actuaries. Even the rates of the insurance companies rest chiefly on empirical foundations, may be changed at any time, and are determined largely by competition. Frequently the companies regard each other with such suspicion that a common registration is said to be impossible; a fact much to be regretted, since a comparison of experience would aid in giving the movement the light of the widest and most varied experience. For the settlement of disputes between members and the directors, or between holders and companies the courts are open; but this is a way too costly and tedious to be taken into consideration. It would be one of the advantages of compulsory insurance that the state could provide a simple and inexpensive arrangement for hearing and deciding cases impartially.

Accident insurance.—The employers' liability law remains in its ancient limits; it is behind the British compensation act of 1897 and much farther behind the German insurance law of 1884. The principle that social care in any explicit way is a duty of the community has never been openly recognized. The in-

jured man stands at once over against his employer as an enemy seeking damages even of a punitive character. Before he can recover damages he must prove, with the presumption against him, that the injury can be traced to the negligence of the employer and is actually due to such negligence. Compulsory insurance or even compensation is not a part of the legal provisions. Voluntary organizations, fragmentary and unfair in character, are further developed with the railroads than elsewhere. In agriculture there is hardly a discoverable attempt in this direction.³ The railroads have generally sought to insure their employees either through agreements with casualty companies or by relief departments; but the employees must carry the greater part of the burden. The employers in other dangerous trades have often organized accident insurance, but generally the schemes load the employees with premiums, cover only a part of the real loss, and lack full actuarial basis. There is nowhere state supervision, or direction, no obligation to insure, no unity or uniformity of method; mostly anarchy. The administration varies with the form of organization: in the mutual benefit associations the matter is directed by a committee with officers and clerks; in the trade-unions the lodge governs the direction; and in casualty companies all is administered by the central office.

In relation to the two methods of paying benefits and indemnities it may safely be said that American practice is at variance with the judgment of many men of experience. The temptation to squander a lump sum when indemnity is so paid is very great. Not much is left of the little fortune after a few months. Payment by instalments would seem to be far better except in rare instances. But the general custom of casualty companies, of employers' associations, and of courts is to settle a case of death or total disability as soon as possible by payment of a sum agreed upon by compromise. The relief departments, however, for temporary disability, pay a certain sum by the week

³ And yet agriculture bids fair to be reckoned among dangerous trades; the introduction of steam-driven machinery increases accidents. Bailey, *Modern Social Conditions*, pp. 247, 291, citing *Twelfth Census of U. S.*, 1902, Vol. III, p. 262 ff.; Zacher, *Arbeiterversicherung im Auslande*, Heft XVI, p. 18; *Handwörterbuch der Staatswissenschaften*, Bd. VII, p. 260, "Unfallstatistik."

or month during the period of need, and this is true of casualty companies.

Payment of income of funds.—In the relief departments of railroads and in the casualty companies the fund is provided by payment of premiums at intervals in advance. No example has been found of groups of employers federated to provide accident insurance; and, indeed, the motive is lacking for such organization. It is significant that employers have organized such associations for fire insurance, in competition with the companies, and these seem to have worked well. The assessment plan of payment is customary in some life insurance companies, in fraternal societies, and in trade-unions, certain sums being levied at a death or at intervals during the year. In settlement of disputes we have only contracts, conferences, and, in the last resort, the law suit.

Old age and invalidism.—A few of the trade-unions have begun to establish funds for old-age retirement benefits. The fraternal societies exhibit a serious defect at this point. Under their system they can carry life insurance only to the region of old age and then the "brother" must care for himself, a very inconsistent kind of fraternity, yet inseparable from present methods. The Mutualists of France have gone much farther in meeting this difficulty by establishing funds for old age and invalidism. Some of the railroad corporations and even private firms have founded funds for old-age pensions and this movement seems to be growing in the country. Cities have pension funds for policemen, firemen, and to some extent for teachers. The nation and the states have made the old age of veterans comfortable. It is perfectly clear that the common laborers of cities can never on present wages provide for old age without help of employers and the public; the outlook is simply hopeless. The income of the workingmen of cities is too small and too irregular to warrant any unaided attempt to provide for the last period of life. In the United States there is no example even of state subsidies to encourage voluntary associations, as in France and in Belgium. Powerful and wealthy corporations, as railroads, canals, ship builders, have not been above asking the gov-

ernment for subsidies to aid "infant industries," even when those industries have become aged and corpulent, but they would brand any attempt to subsidize old-age funds for workingmen as rank "socialism."

Mr. Frederick L. Hoffman⁴ argues against state pensions on grounds usually urged by opponents of advanced social legislation. He makes an estimate of the cost of a state old-age pension system:

Upon the basis of a careful estimate for January 1, 1908, the population of the United States aged 60 and over is 5,512,704, aged 65 and over 3,531,576 and aged 70 and over 1,981,128. . . . Adopting the estimate of a British Departmental Committee, that at ages 65 and over 32.4 per cent. would be entitled to pensions, the numbers pensionable in the United States at that age would be 1,144,230. . . . Assuming as a minimum a pension of \$5.00 a week, as the lowest amount at which support could be obtained, in conformity to the American standard of living, the annual cost to provide a pension of this amount for the probable number of aged poor at ages 65 and over throughout the country would be \$297,499,800. . . . If the age were reduced to 60, the corresponding amount would be \$464,390,160 per annum for the United States. . . . If the pension age were placed at age 70, the amount would be \$166,890,100 per annum for the United States.

Mr. Hoffman would provide guarantees in old age by security for their investments, by voluntary savings and insurance, by reliance on filial piety, and by such modifications of employers' liability laws as would make each trade carry the cost of the injury it inflicts by accident or disease.

As to the possibility of providing for old age by annuities paid for out of wages, he says:

Insurance could do much, if not most, to provide the necessary means of self-support in old age. The rational expenditures of the weekly income of American wage-earners should leave a sufficient margin to pay the premiums for an annuity beginning with age 60 or 65, according to circumstances and conditions, sufficient to meet reasonable needs in old age. If but 5 per cent. of the average income is paid out for insurance premiums, a sufficient sum can be secured which will provide as much, if not more, than the state can ever pay even under the most liberal system of old-age pensions. Let us take, for illustration, an income of \$900 per annum, 5 per cent. of which is \$45; commencing with age 30 and continuing to age 65, this sum paid to a responsible insurance company will purchase an annuity of

⁴*Proceedings of National Conference of Charities and Correction, 1908.*

\$454.09 per annum for a man, and of \$375.03 per annum for a woman. Or, to put the matter in another way, let a man begin at the age of 30 to pay annually \$42.65 and he will be entitled to receive an annuity of \$250 per annum for the remainder of his life, beginning at age 60; or, if he prefers, it will cost him only \$24.78 per annum to secure such an annuity, beginning with age 65. In the case of women the cost is somewhat greater on account of the superior expectation of life of women in old age. Let us suppose that the man is not able to commence at age 30, but that he begins to make his periodical payments at age 40, and continues for 25 years, then the cost of an annuity of \$250 per annum will be \$45.50 a year, or 6.50 per cent. of an income of \$700, or 5.05 per cent. of an income of \$900, or 3.79 per cent. of an income of \$1,200 per annum. These calculations are upon the usual plan of selling deferred annuities, and, of course, if death should occur during the intervening period the payments made would be forfeited, or accrue to the benefit of surviving co-contributors to the fund. Of course, the earlier in life the periodical payments begin, the smaller the amount required to be paid. Many other plans have been devised by which joint annuities can be purchased. A continuous instalment policy, for illustration, provides for the surviving wife in the event of the husband's death for the remainder of her life, or for the needs of children for a period of twenty years.

It is a question of historical fact whether there is any reasonable ground for expectation that the wage-earners either can or will take advantage of these methods. Some light on this matter is given in the first chapter of this series in which such data as exist have been studied. In other places Mr. Hoffman himself does not take an optimistic attitude. Thus in his paper before the New York State Conference of Charities and Correction, in 1901 (*Proceedings*, pp. 273-74), he says:

It is absolutely impossible at the present rate of wages and at the present cost of living for a workingman to save a sum sufficient to do away with all the social and economic misery of modern life. . . . The wages received by the average man are insufficient and will remain insufficient for many years to come to meet all the requirements which a healthy and happy social life imposes upon him.

Since sickness is always a remote contingency, the surplus earnings will be devoted to other purposes for the time being, rather than put aside for a possible occurrence which, however, may never take place.

(See also my paper on "Sickness and Invalid Insurance in Relation to Tuberculosis." *International Tuberculosis Congress* 1908, Washington.)

Various are the methods of providing funeral funds and life insurance. The poorest workmen of America count among their most necessary expenses the premiums which will provide money for a respectable funeral. Sickness and accident insurance come later, and the contingency of need in old age is to their imagination far more remote. The colossal sums poured annually from slender incomes into the coffers of the "industrial insurance" companies are witness of the spirit of sacrifice which is inspired by the sentiment of repugnance to burial at public expense. The benefit departments of the fraternal societies and fraternal insurance societies prove the interest of skilled artisans in providing for future want by insurance.

Comparatively little has been done for unemployment insurance. Apart from occasional gifts of cities, or hastily planned emergency works, the public has manifested no interest in this burning question. During the past years of unexampled and long-continued prosperity the occasion for such insurance has not been so clear as it would be in a period of depression. Of the trade-union methods of dealing with those out of work we have already spoken.